America First

Sound Legislation that Replaces Sequestration

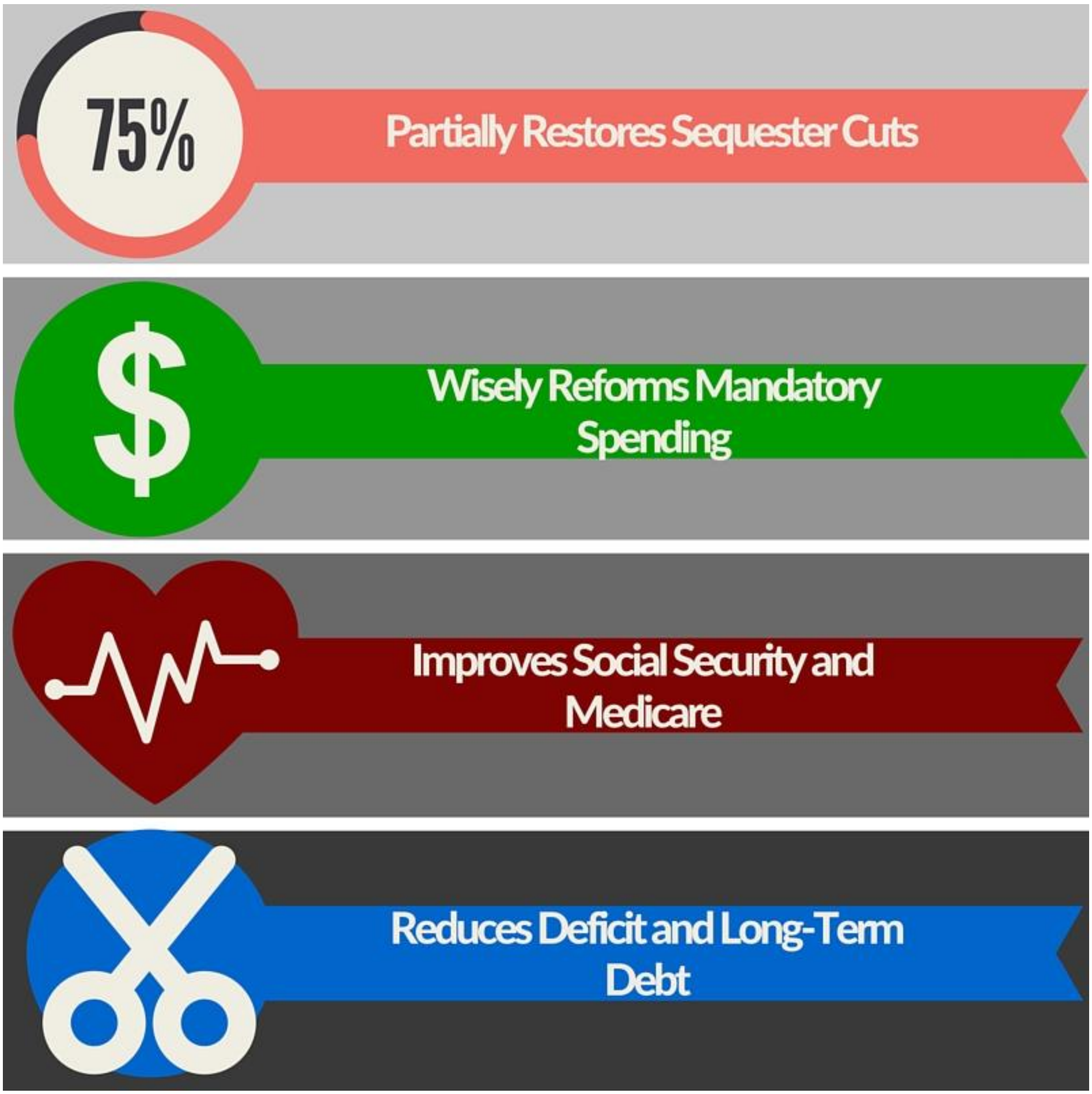
Executive Summary

Congressman Scott Rigell

U. S. House of Representatives

114th Congress

America First Act
Rep. Rigell (VA-02)



America First Act
Rep. Rigell (VA-02)

Ten-Year Cost and Savings in Sequester Plan

Policy	Ten-Year Cost/Savings (-)
Repeal 75% of discretionary sequester	$630 billion
Repeal mandatory sequester	$135 billion
Sequester Relief	**$765 billion**
Switch to the chained CPI for the tax code	-$150 billion
Expand EITC to offset impact of chained CPI	$25 billion
Limit tax expenditure value to 35%	-$100 billion
Repeal medical device tax	$25 billion
Revenue	**-$200 billion**
Expand and increase Medicare means-tested premiums	-$35 billion
Reform Medicare cost-sharing and restrict Medigap coverage	-$110 billion
Bundle payments for post-acute care	-$10 billion
Modify Part D cost-sharing to encourage use of generic drugs	-$20 billion
Reduce Medicare payments for bad debts	-$30 billion
Eliminate site-of-service payment disparities	-$15 billion
Reduce growth in post-acute payments by 1.1% a year	-$65 billion
Reduce Medicare payments for indirect medical education costs	-$10 billion
Increase Medicare Advantage coding intensity adjustments	-$20 billion
Rebase Medicare payments at post-sequester levels	-$100 billion
Reduce Medicaid provider tax threshold	-$25 billion
Enact medical malpractice reform (w/o caps on damages)	-$15 billion
Health Care	**-$455 billion**
Improve PBGC solvency	-$10 billion
Apply Ryan-Murray pension change to current workers	-$20 billion
Index customs, TSA, and other fees to inflation	-$10 billion
Ryan-Murray Policies	**-$40 billion**
Switch to chained CPI for non-Social Security spending	-$85 billion
Reform student loan income-based repayment programs	-$15 billion
Lower Federal Reserve dividend payments	-$15 billion
Reduce farm subsidies	-$10 billion
Other Savings	**-$125 billion**
Total 10-Year Non Social Security Savings	**-$60 billion**
Memorandum: Social Security Savings Dedicated to Solvency	
Switch to chained CPI for cost-of-living adjustments	*-$145 billion*
Offset chained CPI with old-age bump-up and low-income protections	*$20 billion*

America First Act Summary of Reforms
Rep. Rigell (VA-02)

Sequester relief ($750 billion)

- Restore 75% of discretionary spending reductions below original BCA caps through 2021 and extend caps through 2025 - $630 billion
- Repeal mandatory sequester $135 billion

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Current Law Caps										
Defense	$523	$536	$549	$562	$576	$590	$605	$620	$635	$651
Non-Defense	$493	$504	$515	$529	$543	$555	$569	$583	$597	$612
Total	**$1,017**	**$1,040**	**$1,064**	**$1,091**	**$1,119**	**$1,145**	**$1,173**	**$1,203**	**$1,232**	**$1,263**
Caps With Sequester 75% Repealed										
Defense	$564	$577	$590	$603	$617	$631	$646	$662	$679	$695
Non-Defense	$521	$532	$544	$557	$569	$581	$596	$610	$626	$641
Total	**$1,084**	**$1,108**	**$1,133**	**$1,159**	**$1,186**	**$1,212**	**$1,242**	**$1,273**	**$1,304**	**$1,336**

Revenue ($200 billion)

- **Chained CPI ($150 billion):** Many provisions in the tax code, including tax brackets and certain tax benefits, are indexed to inflation as measured by the CPI-U. This policy would switch to the chained CPI, which is generally considered to be a more accurate measure of inflation. Since the chained CPI grows more slowly than the CPI-U, tax bracket thresholds and tax benefits would grow more slowly and result in higher revenue.

- **Expand EITC to offset impact of chained CPI on low-income (-$25 billion):** To offset the impact of the chained CPI on lower-income earners, the plan would permanently extend two expansions to the Earned Income Tax Credit that are set to expire at the end of 2017. The first increases the income level at which the credit phases out for married couples, reducing marriage penalties. The second increases the maximum credit for families with three or more children.

- **Tax Expenditure Limitation ($100 billion):** The tax benefit of itemized deductions is based on the tax bracket a person is in. The plan would limit the value of itemized deductions to 35 percent, reducing the subsidy for taxpayers in the 39.6 percent bracket.

- **Repeal medical device tax (-$25 billion):** The medical device tax is a 2.3 percent tax on medical devices created in the Affordable Care Act to pay for the coverage expansions in the law and intended to compensate for the extra business they would get as a result of the expansion. The plan would repeal the medical device tax.

Health Savings ($455 billion)

- **Expand/increase means-testing of Medicare ($35 billion):** Medicare premiums for Part B and D are generally set at 25 percent of per-person costs, but higher-income people are required to pay higher amounts, ranging from 35 to 80 percent. This policy would expand these means-tested premiums by continuing to freeze income thresholds after 2019 until 25 percent of beneficiaries pay the higher premiums (around 2035) and by raising the premiums to 40-90 percent.

- **Cost-Sharing/Medigap Reforms ($110 billion):** Parts A and B have a variety of rules for deductibles, co-pays, and coinsurance. This policy would replace current Medicare cost-sharing rules with a single combined annual deductible of $650 for Part A and Part B and a 20 percent uniform coinsurance with a new $6,500 out-of-pocket cap (i.e., a beneficiary could never incur more than $6,500 in costs for covered services in a given year). Those levels would be set in 2018 and indexed to health inflation thereafter. It would also prohibit Medigap plans from covering the deductible and limit coverage to 50 percent of any remaining cost-sharing.

- **Bundled payments for post-acute care ($10 billion):** This policy would implement bundled payments for Medicare post-acute care starting in 2020, providing one payment for a single episode of care rather than separate payments for hospitals and physicians. Payments would be bundled for at least half of the total payments for providers, and rates would be based on patient characteristics. Payments would be set so as to produce a permanent and total cumulative adjustment of -2.85 percent by 2025.

- **Modify drug cost sharing to encourage generics ($20 billion):** This policy would change cost-sharing for beneficiaries in the Part D Low-Income Subsidy to encourage the use of generic drugs. Specifically, it would double the co-payment for brand-name drugs, creating a greater cost difference between generic and brand-name drugs for beneficiaries.

- **Reduce Medicare payments for bad debts ($30 billion):** Medicare reimburses hospitals for a portion of its bad debts, or patient cost-sharing that goes unpaid. The plan would reduce the share of bad debt that is reimbursed from the current 65 percent to 25 percent over three years.

- **Eliminate site-of-service payment disparities ($15 billion):** In certain cases, Medicare payments can differ greatly for similar services performed in different settings. This policy would equalize payment rates to reduce disparities for services performed in hospital outpatient departments against those performed in freestanding physician offices.

- **Reduce growth in post-acute payments by 1.1% a year ($65 billion):** This policy would reduce payment updates for inpatient rehabilitation facilities, long-term care hospitals, and home health agencies by 1.1 percent per year from 2016 to 2025. Skilled nursing facilities would receive larger payment reductions upfront that would phase down over time. These changes would replace the 1 percent limit on the 2018 payment update that was enacted earlier this year.

- **Reduce Medicare payments for indirect medical education costs ($10 billion):** Medicare pays teaching hospitals for indirect medical education (IME) to compensate them for higher patient costs. However, the Medicare Payment Advisory Commission has found that current IME payments overcompensate hospitals for additional costs. This policy would reduce payments for IME by 10 percent (from 5.5 to 5 percent) to better align them with costs.

- **Medicare Advantage coding intensity ($20 billion):** Payments to private Medicare Advantage plans are risk-adjusted based on a beneficiary's health, but studies have shown that MA plans tend to "upcode" by diagnosing additional conditions that are not likely to result in higher costs. As a result, MA plans have tended to be overpaid relative to what a beneficiary would have cost in traditional Medicare. Since 2010, a coding intensity adjustment has reduced the risk adjustment by a uniform percentage, currently 5.16 percent in 2015 and set to increase to 5.91 percent by 2018. This policy would increase the adjustment to 8.76 percent by 2021.

- **Rebase Medicare payments at post-sequester levels ($100 billion):** Since 2013, the sequestration enacted in the Budget Control Act has cut Medicare payments across-the-board by 2 percent. This policy would effectively end the Medicare sequester by rebasing payments down by 2 percent and having Medicare change future payment rates based on those lower levels.

- **Reduce Medicaid provider tax threshold ($25 billion):** In order to increase matching payments from the federal government, most states finance higher Medicaid spending by taxing the same providers that receive those payments. To limit this gimmick, the federal government limits provider taxes to 6 percent of net patient revenue (5.5 percent between 2008 and 2011). This policy would reduce the provider tax limit to 5 percent, phased in over two years.

- **Medical malpractice w/o caps on damages ($15 billion):** This proposal would institute several policies that have been part of medical malpractice reforms. It would allow outside sources of income collected from the injury to be considered in making awards, impose a three-year statute of limitations, replace joint-and-several liability with a fair-share rule that makes the defendant liable only for the share of award equal to his/her share of the responsibility, create health courts for lawsuits, and establish safe haven rules for providers who follow best practices.

<u>Building on Ryan-Murray Deal - $40 billion</u>

- **Improve PBGC Solvency ($10 billion):** The Pension Benefit Guaranty Corporation insures defined-benefit pension plans by stepping in when those plans are underfunded to provide a minimum pension. The PBGC is financed by fees on these plans, but the fund for multiemployer plans is expected to run out in 2024. This policy would allow the PBGC to raise its premiums to ensure its solvency and reflect the risks associated with each plan.

- **Apply Ryan-Murray Pension Change to Current Workers ($20 billion):** Recent legislation has raised contribution rates for the Federal Employee Retirement System but has only applied those increases to new workers. Under the Ryan-Murray Bipartisan Budget Act, workers hired in 2014 or later must contribute 4.4 percent of their income to FERS, compared to just 0.8 percent for people hired before 2013. The plan would apply the 4.4 percent contribution to workers not already subject to that rate.

- **Index customs, TSA, and other fees to inflation ($10 billion):** The federal government has several user fees to finance its operations, including fees for customs services, airport security, and food and drug inspection. Since most of these fees are usually a fixed-dollar amount, their purchasing power is eroded by inflation over time. To prevent this, this policy would index to inflation all user fees included in Ryan-Murray – specifically customs, TSA, and conservation fees –and dedicate the amount raised to deficit reduction.

<u>Other mandatory savings and receipts ($125 billion)</u>

- **Chained CPI ($85 billion):** The federal government uses the CPI-U or CPI-W to adjust several program parameters that determine eligibility and benefit levels for inflation. This policy would switch to the chained CPI, which is generally considered to be a more accurate measure of inflation. Since the chained CPI grows more slowly than the traditional CPIs, benefits and eligibility thresholds would grow more slowly, resulting in lower spending.

- **Reform student loan income based repayment program ($15 billion):** Federal student loan borrowers are generally eligible for various forms of income-driven repayment plans, which generally limit annual payments to 10 percent of discretionary income and forgives any unpaid amounts after 20 or 25 years. This provision would adopt the FY 2016 President's budget policy to consolidate repayment plans under the Pay As You Earn (PAYE) initiative for new student loans and make several reforms of the PAYE program, including eliminating the standard payment cap under PAYE so that high-income, high-balance borrowers pay an equitable share of their earnings as their income rises; calculating payments for married borrowers filing separately on the combined household Adjusted Gross Income; capping PSLF at the aggregate loan limit for independent undergraduate students and; preventing payments made under non-income driven repayment plans from being applied toward Public Sector Loan Forgiveness program.

- **Lower Federal Reserve dividend payments ($15 billion):** The Federal Reserve makes a 6 percent dividend payment on stocks held by member banks to participate in the Federal Reserve system. This policy would reduce the dividend rate to 1.5 percent for banks with more than $1 billion of assets.

- **Reduce farm subsidies ($10 billion):** Currently, crop insurance premiums are subsidized by having the federal government cover about 60 percent of the premium. This provision would adopt the FY 2016 President's budget proposal to reduce premium subsidies to farmers for policies providing revenue protection with harvest price coverage. Specifically, it would reduce premium subsidy by 10 percentage points for revenue coverage so that producers would pay an out-of-pocket premium that more closely matches the market price of the purchased coverage.

<u>**Social Security -- $125 billion (devoted to Social Security solvency)**</u>

- **Chained CPI ($145 billion):** After Social Security beneficiaries receive their initial benefit in the first year they go on the program, the benefit is adjusted for inflation each year as measured by the CPI-W. This policy would switch to the chained CPI, which is generally considered to be a more accurate measure of inflation. Since the chained CPI grows more slowly than the CPI-W, benefits would grow more slowly, resulting in lower spending. These savings would be devoted to Social Security solvency, not to offsetting sequester relief.

- **Old age bump up and low-income protections ($20 billion):** To protect the most vulnerable from the effect of the chained CPI, the proposal would bump-up benefits for those who had been on Social Security or Supplemental Security Income for 20 years by an amount equal to 5 percent of the average initial benefit beginning in 2021. It would also index SSI's income disregard and asset limits to inflation.